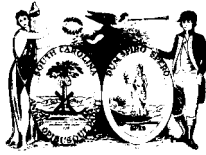


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

July 10, 2002

Ms. Sybil B. Neaves, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

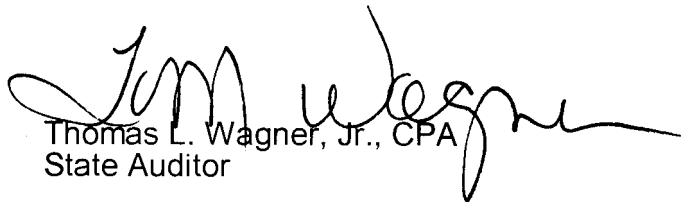
Re: AC# 3-IHC-J9 – Inman Healthcare, Inc.

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts payable for amounts underpaid as a result of the rate changes shown on Exhibit A. You will be notified of settlement terms by that agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

INMAN HEALTHCARE, INC.

INMAN, SOUTH CAROLINA

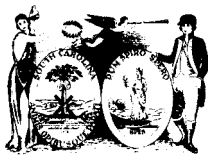
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-IHC-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 7, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Inman Healthcare, Inc., for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Inman Healthcare, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

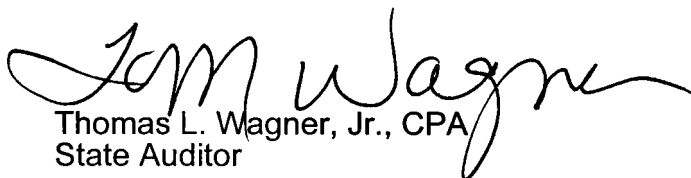
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Inman Healthcare, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Inman Healthcare, Inc. dated as of June 1, 1995 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 7, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

INMAN HEALTHCARE, INC.
Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-IHC-J9

	10/01/00- <u>09/30/01</u>
Adjusted reimbursement rate	\$81.35
Interim reimbursement rate (1)	<u>79.62</u>
Increase in reimbursement rate	\$ <u><u>1.73</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

INMAN HEALTHCARE, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-IHC-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$37.95	\$52.17	
Dietary		9.20	11.39	
Laundry/Housekeeping/Maint.		<u>5.54</u>	<u>8.99</u>	
Subtotal	\$ <u>5.08</u>	52.69	72.55	\$52.69
Administration & Med. Rec.	\$ <u>-</u>	<u>14.03</u>	<u>13.45</u>	<u>13.45</u>
Subtotal		66.72	<u>\$86.00</u>	66.14
<u>Costs Not Subject to Standards:</u>				
Utilities		1.47		1.47
Special Services		.12		.12
Medical Supplies & Oxygen		2.48		2.48
Taxes and Insurance		.91		.91
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$71.70</u>		71.12
Inflation Factor (3.20%)				2.28
Cost of Capital				6.48
Cost of Capital Limitation				(1.81)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.08
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.33)
Nurse Aide Staffing Add-On 10/01/00				.90
Nurse Aide Staffing Add-On 10/01/99				<u>.63</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$81.35</u>

INMAN HEALTHCARE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$ 534,314	\$ 3,375 (4) 339 (4) 892 (5)	\$ 6,999 (3)	\$ 531,921
Dietary	128,145	767 (4)	-	128,912
Laundry	35,516	-	1,740 (7)	33,776
Housekeeping	22,727	-	-	22,727
Maintenance	21,078	66 (4)	-	21,144
Administration & Medical Records	159,128	6,999 (3) 1,010 (4) 1,153 (4) 29,283 (5) 532 (6)	1,448 (2)	196,657
Utilities	20,658	-	-	20,658
Special Services	4,713	79 (4)	179 (5) 239 (8) 2,721 (9)	1,653
Medical Supplies & Oxygen	34,524	234 (8)	-	34,758
Taxes & Insurance	12,738	-	-	12,738
Legal Fees	-	-	-	-

INMAN HEALTHCARE, INC.

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	103,387	1,362 (1) 835 (7)	13,565 (5) 92 (6) <u>1,085 (10)</u>	90,842
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	1,076,928	46,926	28,068	1,095,786
 Ancillary	 15,015	 -	 -	 15,015
 Non-Allowable	 80,354	 1,448 (2) 905 (7) 5 (8) 2,721 (9) <u>1,085 (10)</u>	 1,362 (1) 6,789 (4) 16,431 (5) 440 (6) <u> </u>	 61,496
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$1,172,297</u>	<u>\$53,090</u>	<u>\$53,090</u>	<u>\$1,172,297</u>
 Total Patient Days	 <u>14,016</u>	 <u>-</u>	 <u>-</u>	 <u>14,016</u>
 TOTAL BEDS	 <u>40</u>			

INMAN HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$25,423	
	Cost of Capital	1,362	
	Other Equity		\$19,047
	Accumulated Depreciation		6,376
	Nonallowable		1,362
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	1,448	
	Medical Records		1,448
	To properly report 12 months of expense HIM-15-1, Section 2304		
3	Medical Records	6,999	
	Nursing		6,999
	To reclassify salaries to the proper cost center DH&HS Expense Checklist		
4	Nursing	3,375	
	Restoration	339	
	Dietary	767	
	Maintenance	66	
	Administration	1,010	
	Medical Records	1,153	
	Special Services	79	
	Nonallowable		6,789
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nursing	892	
	Administration	29,283	
	Special Services		179
	Cost of Capital - Depreciation Expense		13,137
	Cost of Capital - Interest Revenue		428
	Nonallowable		16,431
	To adjust IHS home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

INMAN HEALTHCARE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Administration	532	
	Cost of Capital		92
	Nonallowable		440
	To adjust home office CAO allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
7	Cost of Capital	835	
	Nonallowable	905	
	Laundry		1,740
	To adjust home office laundry cost		
	allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
8	Medical Supplies & Oxygen	234	
	Nonallowable	5	
	Special Services		239
	To remove special (ancillary) services		
	reimbursed by Medicare		
	State Plan, Attachment 4.19D		
9	Nonallowable	2,721	
	Special Services		2,721
	To adjust co-insurance for		
	Medicare Part B services		
	State Plan, Attachment 4.19D		
10	Nonallowable	1,085	
	Cost of Capital		1,085
	To adjust capital return		
	State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$78,513</u>	<u>\$78,513</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

INMAN HEALTHCARE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>40</u>
Deemed Asset Value	1,446,600
Improvements Since 1981	126,570
Accumulated Depreciation at 9/30/99	<u>(202,328)</u>
Deemed Depreciated Value	1,370,842
Market Rate of Return	<u>.060</u>
Total Annual Return	82,251
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	82,251
Depreciation Expense	9,019
Amortization Expense	-
Capital Related Income Offsets	(428)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	90,842
Total Patient Days (Minimum 96% Occupancy)	<u>14,016</u>
Cost of Capital Per Diem	\$ <u><u>6.48</u></u>

INMAN HEALTHCARE, INC.

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-IHC-J9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$.68
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>4.67</u>
Reimbursable Cost of Capital Per Diem	\$ 4.67
Cost of Capital Per Diem	<u>6.48</u>
Cost of Capital Per Diem Limitation	\$ <u>(1.81)</u>

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